

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS

October 20, 2007

12:02 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Nancy Dahlstrom
Representative Mark Neuman
Representative Jay Ramras
Representative Ralph Samuels
Representative Mike Doogan
Representative Scott Kawasaki

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Bob Buch
Representative Mike Chenault
Representative John Coghill
Representative Bryce Edgmon
Representative Anna Fairclough
Representative Les Gara
Representative Berta Gardner
Representative Carl Gatto
Representative David Guttenberg
Representative Lindsey Holmes
Representative Wes Keller
Representative Michael "Mike" Kelly
Representative Beth Kerttula
Representative Bob Roses
Representative Paul Seaton
Representative Bill Stoltze
Representative Peggy Wilson

Senator Joe Thomas
Senator Bill Wielechowski

COMMITTEE CALENDAR

HOUSE BILL NO. 2001

"An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to the issuance of

advisory bulletins and the disclosure of certain information relating to the production tax and the sharing between agencies of certain information relating to the production tax and to oil and gas or gas only leases; amending the State Personnel Act to place in the exempt service certain state oil and gas auditors and their immediate supervisors; establishing an oil and gas tax credit fund and authorizing payment from that fund; providing for retroactive application of certain statutory and regulatory provisions relating to the production tax on oil and gas and conservation surcharges on oil; making conforming amendments; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB2001

SHORT TITLE: OIL & GAS TAX AMENDMENTS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

10/18/07	(H)	READ THE FIRST TIME - REFERRALS
10/18/07	(H)	O&G, RES, FIN
10/19/07	(H)	O&G AT 1:30 PM HOUSE FINANCE 519
10/19/07	(H)	Heard & Held
10/19/07	(H)	MINUTE(O&G)
10/20/07	(H)	O&G AT 12:00 AM HOUSE FINANCE 519

WITNESS REGISTER

MARCIA DAVIS, Deputy Commissioner
Office of the Commissioner
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 2001.

ROGER MARKS, Economist
Tax Division
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 2001.

TORSTEN WUCHERPFENNIG, Manager, Asset Valuation
PFC Energy
Houston, Texas

POSITION STATEMENT: Presented testimony during the hearing on HB 2001.

MICHAEL D. WILLIAMS, Chief Economist
Tax Division
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 2001.

BOB GEORGE, Consultant
Gaffney, Cline & Associates Inc. (Gaffney, Cline)
Houston, Texas

POSITION STATEMENT: Answered questions during the hearing on HB 2001.

RICH RUGGIERO, Consultant
Gaffney, Cline & Associates Inc. (Gaffney, Cline)
Houston, Texas

POSITION STATEMENT: Answered questions during the hearing on HB 2001.

ACTION NARRATIVE

CHAIR KURT OLSON called the House Special Committee on Oil and Gas meeting to order at [12:02:50 PM](#). Representatives Doogan, Kawasaki, Neuman, Samuels, and Olson were present at the call to order. Representatives Ramras and Dahlstrom arrived as the meeting was in progress. Representatives Buch, Chenault, Coghill, Edgmon, Fairclough, Gara, Gardner, Gatto, Guttenberg, Holmes, Keller, Kelly, Kerttula, Roses, Seaton, Stoltz, Wilson, and Senators Thomas and Wielechowski, were also in attendance.

HB2001-OIL & GAS TAX AMENDMENTS

[12:03:38 PM](#)

CHAIR OLSON recognized special guests Tom and Jean McNamara from Houston, Texas. The McNamara's have visited all 50 state capitols. He then announced that the only order of business would be HOUSE BILL NO. 2001 "An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to the issuance of advisory bulletins and the disclosure of certain information relating to the production tax and the sharing between agencies of certain information relating to the production tax and to oil and gas or gas only leases; amending the State Personnel Act to place in the exempt service certain state oil and gas auditors and their immediate supervisors; establishing an oil and gas tax credit fund and authorizing payment from that fund; providing for retroactive application of certain statutory and regulatory provisions

relating to the production tax on oil and gas and conservation surcharges on oil; making conforming amendments; and providing for an effective date."

[12:03:51 PM](#)

MARCIA DAVIS, Deputy Commissioner, Office of the Commissioner, Department of Revenue (DOR), informed the committee that today's PowerPoint presentation will focus on global competitiveness. She explained that a possible change in the state's production tax system will raise concerns, one of which is how a change will impact Alaska's ability to attract investment dollars. To answer that question legislators need to know who Alaska is competing with and how the economics look to investors. She assured the committee that DOR is mindful to ensure that during the process of comparing and evaluating the tax systems, the data requested from consultants is provided on the same basis and results in equal comparisons.

[12:06:57 PM](#)

MS. DAVIS continued to say that today's testimony will analyze the different measures for government take and explain the choices made by DOR. In addition, there will be a description of the modeling technique used by the PFC Energy analysis. The first report will be by Roger Marks who will make a comparison of the basic differences between the Petroleum Production Profits Tax (PPT) versus Alaska's Clear and Equitable Share (ACES). Before beginning the presentation, Ms. Davis noted that, in answer to a question raised during testimony on October 19, 2007, Cook Inlet credits can be transferred to the North Slope, but only after they are fully utilized. She offered to explain the complexities of these transfers to the committee members after today's hearing.

[12:08:47 PM](#)

ROGER MARKS, Economist, Tax Division, Department of Revenue (DOR), began to explain the simple mechanics of PPT and the changes proposed by ACES. He informed the committee that shipping and pipeline tariffs subtracted from the Alaska North Slope (ANS WC) West Coast price of oil equal the gross value at the point of production. This is what is meant by "taxing at the gross". However, for PPT and ACES, upstream capital costs, adjusted for maintenance, and upstream operating costs are deducted to determine the net income. At this point, PPT taxes

net income at 22.5 percent and ACES will increase this amount to 25 percent.

[12:10:44 PM](#)

REPRESENTATIVE RAMRAS asked Mr. Marks to explain the difference between capital costs and operating costs.

[12:11:04 PM](#)

MR. MARKS explained that qualified capital costs are expenditures for the major equipment used to produce oil and gas. These expenditures are depreciated over a period of years to reflect the useful life of the assets. Operating costs are everyday expenses such as labor and fuel.

[12:11:59 PM](#)

REPRESENTATIVE RAMRAS noted that the United States Department of Treasury, Internal Revenue Service (IRS) will look at depreciating goods at specific dates and asked whether the state will use the same rules.

[12:12:21 PM](#)

MR. MARKS answered that under PPT 100 percent of capital costs are deducted the year they are incurred.

[12:12:32 PM](#)

REPRESENTATIVE RAMRAS opined that for the purpose of determining production taxes, there is no distinction between an operating expense and a capital cost; the state will calculate them as the same and they will be subject to deductions under ACES or PPT.

[12:12:46 PM](#)

MR. MARKS stressed that the only big distinction is that capital costs are subject to a credit under the 023a provision of ACES. He continued to say that the changes proposed by ACES will result in an increase of FY 08 revenue by \$200 million, when revenue is estimated at \$60 per barrel. In addition to the base tax rate there is a progressivity surcharge calculated on the net income per barrel. Under PPT, for every dollar of net income per barrel over \$40, the surcharge is .25 percent. Under ACES, progressivity begins when the per barrel net income is above \$30, and the resulting base rate surcharge is .20 percent.

[12:14:34 PM](#)

REPRESENTATIVE RAMRAS asked whether the presentation will reflect changes in the price of oil.

[12:15:32 PM](#)

MR. MARKS stressed that the purpose of today's presentation is to show mechanically how the taxes work; subsequent testimony will reflect further analysis using various models.

[12:15:43 PM](#)

REPRESENTATIVE SAMUELS clarified that, mechanically speaking, there is no difference between PPT and ACES.

[12:16:05 PM](#)

MS. DAVIS agreed.

[12:16:18 PM](#)

REPRESENTATIVE SAMUELS reminded members of the committee that, in its calculations, DOR assumes a certain price of oil, cost level, and production level. He pointed out that the assumptions are variables and based on projections from a variety of economic consultants.

[12:17:31 PM](#)

MS. DAVIS agreed and explained that when models are changed by one economic variable, other factors must be held constant for comparison purposes. If the legislature requests changes in multiple variables, the models will reflect a relative "swing", but not an exact dollar figure. She encouraged committee members to look at the association of the tax rate, progressivity, and high credits.

[12:18:38 PM](#)

REPRESENTATIVE SAMUELS expressed his hope that the risk associated with constant investment and increased cost will be charted with a drop in production, and that there will be models that demonstrate the causal effect of money spent to increase production.

[12:19:16 PM](#)

REPRESENTATIVE HOLMES asked for the crossover point at which PPT progressivity would be bringing in more money than ACES.

[12:19:59 PM](#)

MR. MARKS estimated that the ACES crossover point will occur at approximately \$120 per barrel ANS.

[12:20:16 PM](#)

REPRESENTATIVE RAMRAS reminded committee members to consider the weather pattern and changes in climate.

[12:21:30 PM](#)

REPRESENTATIVE DOOGAN asked what the ANS West Coast price would need to be in order to generate a \$40 per barrel net income under PPT.

[12:22:16 PM](#)

MR. MARKS said about \$62 per barrel.

[12:22:26 PM](#)

REPRESENTATIVE DOOGAN noted that the costs are now about \$22 per barrel and asked whether these costs will remain the same.

[12:22:36 PM](#)

MR. MARKS opined that if production declines due to maintenance issues, but costs stay the same, the previous estimate will be higher.

[12:22:52 PM](#)

REPRESENTATIVE NEUMAN pointed out that cost estimates have increased from \$15 to \$22 in one year.

[12:23:02 PM](#)

MR. MARKS confirmed that costs have increased worldwide during the last year and the reasons will be discussed during the hearing on October 21, 2007.

[12:23:21 PM](#)

REPRESENTATIVE NEUMAN asked for the actual tax rate with PPT progressivity starting at \$40, and a surcharge of .25 percent, and ACES starting at \$30 with a surcharge of [.20] percent.

[12:23:45 PM](#)

MR. MARKS said that at \$60 per barrel, assuming a \$22 deduction under PPT, there would be no progressivity. Therefore, under ACES, the tax rate would be 26.6 percent.

[12:25:16 PM](#)

REPRESENTATIVE NEUMAN pointed out that the increase in the cost of production strongly affected the rate.

[12:25:36 PM](#)

REPRESENTATIVE SAMUELS asked for the amount of the production level assumption in this example.

[12:25:50 PM](#)

MR. MARKS responded that the forecast for FY 08, used in this example, is approximately 720,000 barrels per day.

[12:26:23 PM](#)

REPRESENTATIVE SAMUELS further asked for last month's production figures.

[12:26:38 PM](#)

MR. MARKS said that he did not have that information.

[12:26:46 PM](#)

REPRESENTATIVE SAMUELS requested production figures for the last three months.

[12:27:04 PM](#)

MR. MARKS noted that winter production figures will be higher than summer.

[12:27:16 PM](#)

REPRESENTATIVE SAMUELS observed that previous revenue projections were too high. He asked how much of the difference was due to production levels and how much do to increases in costs; for example, if the same costs were spread over 20 percent less barrels. Representative Samuels confirmed that the example now is 720,000 barrels per day and again requested actual production figures for the last three months.

[12:27:49 PM](#)

REPRESENTATIVE DOOGAN stated that if progressivity will kick in, as a taxpayer, there is incentive to not reach that production number. He opined that progressivity will change the behavior of the taxpayer as the producers will want to stay under the production number that triggers the progressivity surcharge.

[12:29:03 PM](#)

MR. MARKS responded that the producers will still be making a profit and they are better off producing the maximum amount of oil and paying the progressivity surcharge.

[12:29:21 PM](#)

MS. DAVIS clarified that the question is about math; producers would put more in capital costs and upstream operating costs to reduce the net income and keep the taxpayer below the progressivity number. She agreed that there could be a range where those efforts would pay off, but not always.

[12:30:06 PM](#)

REPRESENTATIVE DOOGAN made the assumption that the current prices are not typical. The likelihood of the close range occurring increases as oil prices go down.

[12:30:39 PM](#)

MS. DAVIS confirmed that setting the trigger price for progressivity will affect the motive for producers to "play that game".

[12:31:00 PM](#)

MR. MARKS continued to explain that after the base rate and progressivity surcharge are calculated, the tax payment under

PPT and ACES is reduced by credits. The qualified capital credit 15 AAC.55 (023a) allows 20 percent of capital cost to be deductible as a credit in the year incurred and is unchanged under ACES. The net operation loss credit 15 AAC.55 (023b) benefits new producers, like Pioneer, that do not have high levels of income to offset losses. He pointed out that larger producers can deduct losses from income and realize the full deduction; however, small producers that are developing fields are incurring large costs with little income to be offset. The net operating loss provision under PPT allows conversion of the loss to a credit at the rate of 20 percent and monetizes the credit within the year to benefit the net present value. Under PPT the tax is 22.5 percent; therefore, the rate of conversion to a credit is 22.5 percent which means a big producer could deduct 22.5 percent of costs and a small producer, without offsetting income, is limited to converting its loss to a credit at a 20 percent rate. ACES will increase the tax rate to 25 percent; therefore, both large and small producers will be allowed to convert net operating loss to a credit at the 25 percent rate.

[12:35:28 PM](#)

REPRESENTATIVE COGHILL asked whether the capital credit limitation of one year, under PPT, changes to two years under ACES.

[12:35:44 PM](#)

MS. DAVIS said yes.

[12:35:48 PM](#)

MR. MARKS confirmed that ACES proposes that, instead of getting the 20 percent credit all in the year that it is incurred, the credit can be spread over two years.

[12:36:06 PM](#)

REPRESENTATIVE DOOGAN opined that this is the provision under which an oil company with costs, but no income, will try to sell its credits.

[12:36:37 PM](#)

MS. DAVIS responded that under ACES the company will be able to both sell credits and have them refunded by the state.

[12:36:48 PM](#)

REPRESENTATIVE DOOGAN clarified that under PPT, credits can be sold if there is a market; under ACES the state is the buyer of the credits. Under the current system, if a company has a credit for costs, without taxes to write off, it will need to find a buyer, or will have a loss.

MR. MARKS agreed and noted that the buyer will not pay 100 cents on the dollar.

REPRESENTATIVE DOOGAN continued to say that, under ACES, the state is the buyer of last resort and, therefore, becomes a participating partner in the exploration of new prospects.

[12:37:59 PM](#)

MR. MARKS said:

Under PPT, even ... if ... ExxonMobil Corporation (EXXON) bought ... something at ninety cents on the dollar EXXON would, would go to the state with the credit, so the state is paying, is really ... at the end of the day, this doesn't affect how the state's participation because the state is, the state, is sort of out the full 20 percent by paying it directly under ACES, or, or, you know, crediting EXXON when they come forward with the credit certificate if they had bought the credit from someone else.

[12:38:41 PM](#)

REPRESENTATIVE DOOGAN expressed his understanding that if nobody buys the credit, there is no cost to the state.

[12:38:55 PM](#)

MR. MARKS agreed.

[12:38:59 PM](#)

REPRESENTATIVE SAMUELS expressed his assumption that the question of the state buying credits will be covered by the presentation, and informed the committee that the historical context of net operating losses reveals that the legislature

failed to set the percentage of the net operating loss equal to that of the tax rate.

[12:39:33 PM](#)

REPRESENTATIVE HOLMES asked how the capital credits are used.

[12:40:21 PM](#)

MR. MARKS answered that under PPT, a company will deduct capital costs and compute income based on the tax rate. In addition, PPT allows for a 20 percent credit on capital costs. ACES proposes a change to allow the credit to be spread over two year.

[12:40:56 PM](#)

REPRESENTATIVE HOLMES opined that, under PPT and ACES, the deduction for capital costs, minus 30 cents, is a smaller percentage back of the capital costs; this is written off against the tax rate. If there was not 30 cents per barrel, a company would be getting 22.5 to 25 percent of its capital costs back. She concluded that the state is not really giving up 100 percent.

[12:42:00 PM](#)

MR. MARKS agreed. He then explained that the third credit, 15 AAC.55 (023i), known as the transition, or TIE credits, are in response to producers claims that they were unaware of coming changes under the PPT regarding deductions and qualified expenditures were not deferred. The TIE credits allow producers to shift spending so they may have past expenditures qualify for deductions under the new tax law.

[12:42:54 PM](#)

REPRESENTATIVE RAMRAS requested that Mr. Marks talk about the time limit for transitional credits and the complex formula discussed at length last year by Dr. van Meurs and Mr. Daniel Johnston. He spoke of the complexity of the precise formula that was to result in a new tax system that will stimulate production in legacy and new fields and new production. New legislators need to be aware of the disparate variables introduced by the consultants. The presumption was that changing elements of the formula will increase production, leading to greater revenue over the long term due to the

stimulation of investment, exploration, and discovery, and production. Representative Ramras continued to recall that these changes are based on a complicated tax reward for investment. The legislature is now in the process of tinkering with the expert's advice. He expressed his concern that, without the passage of ACES, future special sessions will be called by the governor. He stressed that some business costs are fixed units adjusted by volume. The oil and gas industry's tax payments are affected by investment climate and possible changes made to the PPT. In addition, costs of inflation will mean big impacts in the future. He expressed his concern that the result of resetting the TIE credit is less than significant. The fact of the matter is that the legislature voted on the tax rate and the vote was the result of the legislative process. He concluded by saying that he fears undermining the previous efforts to create a healthy economy and protect the state's interests. He asked the question: "Why are we here".

[12:49:08 PM](#)

REPRESENTATIVE DOOGAN observed that the presentations involve estimations that are changed with variables. His assumption is that the state will gain from a lower tax rate something of equal value. He expressed his interest determining the value of leaving money, in the form of tax revenue, "on the table". Constituents are asking for additional tax revenue to be spent on projects around the state. His hope is that the administration will provide sufficient information so that legislators can determine what the state will get in return, for instance, after a change in the net operating loss credit.

[12:51:49 PM](#)

MS. DAVIS informed the committee that the administration asked DOR to look at the PPT and restore public confidence in the tax. She opined that if the legislature, after reviewing current information, determines that the PPT is the correct balance, the process will restore the public's confidence. However, in the process of the debate, new information on, for example, the TIE credits may change revenue projections. The administration feels its responsibility to provide updated and revised information, and to ensure that new legislators are fully informed.

[12:54:00 PM](#)

REPRESENTATIVE COGHILL recalled that there were three scenarios discussing the net operating loss credit. He asked whether the \$200 million investment represents an overcharge, or a reasonable projection for the TIE credit.

[12:54:51 PM](#)

MR. MARKS explained that there were good estimates of costs from 2001 to 2006. Subsequent to that, inflation on the North Slope and worldwide was substantial. The TIE credits are 20 percent on amounts between 2001 and 2006, but they are subject to a 1:2 ratio, which results in an additional 10 percent of capital credit on top of the 20 percent credit. Therefore, the \$200 million represents about \$2 billion in capital spending for FY 08. A company cannot over-recover the amount of the TIE credits and, since they are a function of capital spending, the credits were recovered at a fast pace. He confirmed that TIE credits will expire in 2013 under PPT and that they are eliminated under ACES.

[12:57:13 PM](#)

REPRESENTATIVE SAMUELS asked whether the \$200 billion in the model is a forecast number.

[12:57:40 PM](#)

MS. DAVIS answered that the model is based on the forecast for FY 08.

[12:57:53 PM](#)

REPRESENTATIVE SAMUELS surmised that, without FY 08 audits, the stability factor has more effect on investment than the 10 percent credit, and the forecast is really an unknown.

[12:58:39 PM](#)

MS. DAVIS informed the committee that FY 08 was chosen because an FY 07 forecast would be based partly under PPT and partly under ACES. The FY 08 model can be projected under PPT and under ACES for an equal comparison.

[12:59:41 PM](#)

REPRESENTATIVE SAMUELS asked whether Pioneer Natural Resources (Pioneer) has put in for net operation loss credits.

[1:00:12 PM](#)

MS. DAVIS said that she can not comment.

[1:00:21 PM](#)

REPRESENTATIVE SAMUELS further asked whether any company has requested net operating loss credits.

[1:00:31 PM](#)

MR. MARKS said yes, there has been marketing of net operating loss credits to third parties.

[1:00:38 PM](#)

REPRESENTATIVE KERTTULA asked whether DOR has audit information, or examples, of exactly what the loss credits were for.

[1:01:08 PM](#)

MS. DAVIS responded that credits presented for certification break down operating expenses and capital expenses; however, that is not an audit and the expenses are judged on compliance of form and not substance. She stated that PPT returns and filings have not been audited at this time.

REPRESENTATIVE KERTTULA further asked for specifics on submitted filings.

[1:02:05 PM](#)

MS. DAVIS clarified that taxpayer filings indicate some details, but DOR does not have a breakdown regarding whether a capital expense is for new projects or for maintaining existing projects already on the books. This information needs to be solicited by DOR by requesting additional information, or determined by an audit. Presently, DOR is in the process of making inquiries into taxpayer's submissions to determine the level of compliance and to facilitate completion of the regulations.

[1:03:41 PM](#)

REPRESENTATIVE KERTTULA opined that without that information it is impossible to determine whether costs are valid.

[1:04:01 PM](#)

MS. DAVIS relayed that DOR can not guarantee that every taxpayer is complying with guidelines on submitted information. However, these companies work with similar systems worldwide, and the industry understands these requirements at the corporate level. Given the penalties and interest charged on non-compliance, Ms. Davis assured the committee that there is an expectation of professionalism and integrity that should limit corrections to about five or ten percent. She concluded by saying that she cannot swear that the system is perfect.

[1:05:30 PM](#)

CHAIR OLSON asked when real audit information would be available.

[1:05:38 PM](#)

MS. DAVIS estimated that, assuming additional personnel are hired, the first audit of a PPT taxpayer will be underway within a year. She noted that audits may be taken out of chronological order, thus the need for changes in the statute of limitations.

[1:06:04 PM](#)

CHAIR OLSON further asked when the completion of the regulations is expected.

[1:06:08 PM](#)

MS. DAVIS informed the committee that the regulations should be out by the first of the year.

[1:06:24 PM](#)

CHAIR OLSON asked for the name of the architect of ACES.

[1:06:53 PM](#)

MS. DAVIS stated that the development of ACES has been a collaborative effort within DOR. The administration initially asked for a gross tax. However, using PPT as the base, DOR consulted with economists; furthermore, the Department of Natural Resources (DNR) provided information on new field versus legacy field development. In addition, policy decisions about the future of the state were made at the highest levels. The

final version of ACES was a combination of analysis, economics, resource evaluation, and policy decisions. She added that the legislative body will make the ultimate choice.

[1:09:01 PM](#)

REPRESENTATIVE NEUMAN called attention to the struggle to provide income for state services and to consider tax impacts on the reinvestment in the state by the oil and gas industry. He asked for a model that reflects the ultimate impact on the money that either goes to government or is reinvested by private industry in new development.

[1:10:31 PM](#)

MS. DAVIS agreed that there is a question of whether leaving money in the system creates development and, therefore, ancillary benefits to the state. She stated that DOR's testimony on October 21, 2007, will identify the base level and extraordinary development of mature fields to determine how investors will forecast the success of projects under PPT or ACES. She acknowledged that proving the theory of trickle down economics is very difficult, and that, within the state, researchers have tried to determine the global benefits of oil and gas development.

[1:12:27 PM](#)

REPRESENTATIVE NEWMAN agreed with the need to determine whether industry profits go out of state or are reinvested in Alaska through jobs. The creation of new jobs may have a "multiplier" effect on the economy four to seven times over.

[1:13:09 PM](#)

MS. DAVIS assured the committee that DOR will attempt to determine whether industry investments are coming to Alaska or going to other countries offering a more lucrative fiscal regime. Today's presentation will include case studies that compare Alaska to other parts of the world. Secondly, is Alaska offering a good return on the oil industry's investment? The hearing on October 21, 2007 will reveal whether changing the tax makes a difference and how changes will impact the industry's evaluation of Alaska.

[1:14:43 PM](#)

REPRESENTATIVE NEUMAN reminded the committee that Alaska competes against, not only oil and gas, but biofuel sources of energy, also. The dynamics of competition for energy sources has changed and now includes biofuel, hydro and solar.

[1:16:01 PM](#)

REPRESENTATIVE DAHLSTROM commented that there are too many unanswered questions and projected numbers for investment decisions to be made by the state or by individual investors. She questioned whether other countries and worldwide corporations make successful investment decisions with incomplete information.

[1:18:49 PM](#)

MS. DAVIS confirmed that the trend, from 2000 forward, is that other countries are increasing government take. As oil companies search for scarce resources and prices go up, governments are raising the price of extracting their resources; Alaska is not out of step with the rest of the world. Our work is to determine how much to increase government take and to judge where Alaska stands in competition with the world. Tomorrow's presentation will help legislators look at the tax with the eyes of the investor.

[1:21:33 PM](#)

REPRESENTATIVE DAHLSTROM expressed her desire to see a chart that shows what countries and companies are taking risks and the results in case of failure. She described her personal responsibility in making a decision affecting Alaska's citizens.

[1:23:19 PM](#)

MS. DAVIS agreed that the debate between industry and government is perennial, thus the facts regarding investment dollars must be proven.

[1:24:20 PM](#)

REPRESENTATIVE DAHLSTROM reiterated that the legislature is dealing with an economic outlook that may result in negative effects on everyday life for Alaska's citizens.

[1:25:20 PM](#)

REPRESENTATIVE SAMUELS said that most business is local, but outside investments impact local business. He spoke of the importance of enduring contracts and the difficulties of maintaining a successful local business. The result is that the economy of the state and day to day life is linked to the success of smaller companies. Investment is not just important to the big companies, but real to each of the smaller companies that provide support services and supplies. He stressed that if stability is not an issue, the correct decision may be to raise the tax and take the risk. However; how much risk to the general welfare of all Alaskans, is Alaska willing to take?

[1:32:21 PM](#)

REPRESENTATIVE DOOGAN expressed his feeling that this process is troubled by the amount of uncertainty regarding last year's projections. In addition, the risk of proceeding at this time with fictitious numbers has undermined his confidence in the administration's recommendations.

[1:35:07 PM](#)

MR. MARKS referred to the general calculation of the tax rate floor and explained that, under PPT, the net payment is compared against 4 percent of gross income when the ANS West Coast price is above \$25 per barrel of oil. There is also some adjustment with credits that will be explained in the sectional analysis. Under ACES, the floor is limited to units with cumulative production over one billion barrels and daily production over one hundred thousand barrels per day. In addition, the ACES net tax payment is compared with ten percent of gross for Prudhoe Bay and Kuparuk River units and payment is made on the "higher of".

[1:36:43 PM](#)

REPRESENTATIVE SAMUELS opined that when the operators are spending more money they will generate less taxes. However, less taxes will drive the limit to the floor and then the tax rate goes up.

[1:37:14 PM](#)

MR. MARKS agreed.

[1:37:19 PM](#)

REPRESENTATIVE HOLMES pointed out that the small producer credit and the exploration credit were not discussed by the presenters.

[1:37:43 PM](#)

MR. MARKS explained that the small producer's credit will not change under ACES. However, the exploration credit will have a small change to include additional delineation wells.

[1:38:53 PM](#)

REPRESENTATIVE SAMUELS asked how much of the exploration credits have been used.

MR. MARKS answered about 50 million per year. He added that exploration (025) credits do not reflect all the exploration credits. Mr. Marks began to describe how the administration measures government fair share. Fair share to government is an objective of fiscal systems from the perspective of government. Investors are free to invest worldwide, capital is fluid, and investment can occur on a competitive basis. The state's definition of fair share is the portion of the value of projects that is going to government commensurate with business risk. For example, Angola is a geologically rich country. There is a question of political stability, but investors are willing to pay a premium for low geological risk. However, Alaska can not be compared to Angola do to its weaker geology and, therefore, higher business risk.

[1:43:27 PM](#)

MR. MARKS continued to explain that Prudhoe Bay, although a big field, is 70 percent to 80 percent depleted. Fair share is a comparable concept and the objective measurements need to be systematically comparable. The final principle for determining fair share is that the measurement needs to recognize that investment decisions look at new fields differently than mature, or legacy fields, in terms of the value. New fields can be measured over the lifetime of the project. Mature fields have other factors to consider such as: costs that are incurred in discreet time-frames, returns realized after investments, economics depicted in a single year, and meaningless systematic international comparisons for a particular year. The pattern of development is that first there is investment, followed by return. Again, investments are made based on forward looking economics.

[1:46:06 PM](#)

REPRESENTATIVE NEUMAN requested information that would identify where the industry is re-investing.

[1:46:55 PM](#)

MS. DAVIS assured the committee that this information will be provided later in the hearing.

[1:47:05 PM](#)

REPRESENTATIVE DAHLSTROM asked for further information on legacy fields.

[1:47:20 PM](#)

MR. MARKS responded that the fair share to government for legacy fields must be measured differently due to the fact that after 20 years to 30 years there are past costs to consider. A single year's revenue will not reflect the costs of developing the project.

[1:48:14 PM](#)

REPRESENTATIVE DAHLSTROM surmised that the information from a legacy field is necessary to understand the pattern of costs and revenue.

[1:49:02 PM](#)

MS. DAVIS explained that DOR can not model legacy fields because the tax structure has changed, thus cradle to grave analysis is not possible. The next best measure to understand the impact on mature fields is to do a marginal take of the next dollar increment. She assured the committee that the data from consultants comparing Alaska to other investment areas was limited to the identical scope and measurements of both subjects. Data on new fields was compared only to cradle to grave full field analysis; data to be compared to Prudhoe Bay and Kuparuk River was data that represented the tenth year of a field.

[1:51:27 PM](#)

MR. MARKS cautioned the committee that raising government take high enough to make up for the years Alaska was collecting at a

lower rate would put Alaska in a non-competitive position with the current international investment climate.

[1:52:55 PM](#)

REPRESENTATIVE DAHLSTROM informed the presenters that she is unsure of the data being represented.

[1:53:42 PM](#)

MS. DAVIS answered that investments will be based on future expansions and comparisons with alternative investment opportunities.

[1:54:23 PM](#)

REPRESENTATIVE DAHLSTROM expressed her interest in the past history of investors, including how a company handles past crisis and failures.

[1:55:04 PM](#)

MS. DAVIS agreed that a track record is helpful.

[1:55:11 PM](#)

REPRESENTATIVE SAMUELS agreed that investors look forward; however, if the price of oil dips, and a company spends more, the more the floor is activated and more tax is owed.

[1:56:34 PM](#)

MR. MARKS added that, prior to hitting the floor; PPT allows savings to producers by investing.

[1:56:43 PM](#)

REPRESENTATIVE SAMUELS recalled that the crossover rate under ACES is \$50.

MS. DAVIS said that the crossover rate is now estimated in the \$40 range.

REPRESENTATIVE SAMUELS asked whether Oooguruk is considered a legacy field.

[1:57:03 PM](#)

MS. DAVIS answered that the only new field developments analyzed were fields that have not been sanctioned and built.

[1:57:33 PM](#)

REPRESENTATIVE SAMUELS then asked for the percentage of revenues that are from Prudhoe Bay, Kuparuk River, and Alpine Units.

[1:58:08 PM](#)

MR. MARKS answered 80 to 90 percent. In response to a question, MR. MARKS informed the committee that there is no revenue from oil from Cook Inlet and the remaining percentage comes from Northstar and Milne Point Units.

[1:58:27 PM](#)

REPRESENTATIVE SAMUELS opined that the floor will impact 80 to 90 percent of Alaska's revenues.

MR. MARKS noted that the floor will not hit Alpine Unit.

REPRESENTATIVE SAMUELS remarked:

If 85 percent of the oil comes out of Prudhoe, Kuparuk and Alpine, how much of the costs go into Prudhoe, Kuparuk and Alpine. All, all of the money is coming out of there, how much money is going into there?

[1:58:49 PM](#)

MS. DAVIS indicated that she was unsure whether DOR reports costs on a per unit basis. She will research the availability of this information.

[1:59:06 PM](#)

REPRESENTATIVE SAMUELS confirmed the value in knowing where investments are currently being made.

[1:59:26 PM](#)

MS. DAVIS warned that this information may be confidential.

[1:59:37 PM](#)

REPRESENTATIVE NEUMAN expressed his concern that the presenters were confused about some of the facts.

2:00:08 PM

MS. DAVIS responded that the discussion wandered from the previous subject.

2:00:26 PM

REPRESENTATIVE NEUMAN asked whether specific information on the floor will be provided.

2:00:35 PM

MS. DAVIS answered that the analysis of the floor changed when figures for Prudhoe Bay and Kuparuk were consolidated and the ringfence was removed. Also, in the process of insuring that the numbers being provided to the committee are accurate, estimates are constantly revised.

2:01:33 PM

REPRESENTATIVE NEUMAN shared that production forecasts have been revised since recent public testimony in the Mat-Su Valley.

2:02:20 PM

MR. MARKS expressed his belief that the hearing is not the best forum for asking for variable rates and estimates.

2:03:00 PM

The committee took an at-ease from 2:03 p.m. to 2:23 p.m.

2:23:33 PM

CHAIR OLSON invited Mr. Marks to continue with his presentation.

MR. MARKS explained that government take for new fields is calculated over the entire life of the field and is the percentage of economic rent going to government. Economic rent is the gross revenue less costs, or pre-tax profit. In addition, discounting by ten percent recognizes the cost of capital. In Alaska, there is some front-end loading of property taxes and royalties. Last year, the projected revenues were undiscounted numbers; this year they will be discounted.

[2:25:56 PM](#)

MR. MARKS then explained how to measure fair share for the legacy fields. He said that this is a look at the marginal tax rate (MTR) which is the incremental share of the dollar going to the government. In Alaska, this is derived by looking at a given price, for example \$60 per barrel, and determining property taxes, royalties, severance tax, state corporate income tax, and federal corporate income tax. The price is then increased by one dollar and the new government take estimate is compared to the original. The difference between the two figures is the marginal tax rate. Mr. Marks noted that often interested parties request annual "share" data, however, that figure is based on net cash flow from one year and may not be appropriate for legacy fields.

[2:28:06 PM](#)

REPRESENTATIVE NEUMAN stressed that total government take includes local taxes and property taxes, royalties, income taxes, and severance taxes.

[2:29:15 PM](#)

MS. DAVIS agreed that there is some concern that the same standard was not used when total government take was compared to other counties. She assured the committee that the present comparisons include all possible variables.

[2:30:05 PM](#)

MR. MARKS informed the committee that, worldwide, oil and gas producing entities are separated into two systems for collecting government take. Developed nations with stable democracies and diverse economies collect revenue by royalties and production tax programs written in statute. Underdeveloped and politically risky nations use production sharing contracts to administer their fiscal systems. Contracts are negotiated field by field. Alaska should be compared with the tax and royalty jurisdictions and its government take, under PPT and ACES, falls between the United Kingdom and Norway in its peer group. Mr. Marks summarized by pointing out that the conclusions from this report differ from the past due to a more exhaustive search of international jurisdictions, the study of real projects, and use of an internal Schlumberger, Merak Peep model with detailed fiscal systems. In addition, fundamental changes to the

approach of the data are the differences between legacy and new fields and comparisons to relevant competition.

[2:33:54 PM](#)

TORSTEN WUCHERPFENNIG, Manager, Asset Valuation, PFC Energy, Houston, Texas, informed the committee that he is responsible for preparing all field economic and asset evaluations for consulting projects and subscription services together with other analysts who are involved in monitoring 300 oil and gas fields. He will discuss data from 190 fields. The first section of his presentation will cover government take.

[2:35:29 PM](#)

REPRESENTATIVE SAMUELS asked whether PFC Energy advises any other governments, oil companies, or U.S. states, and whether it owns real estate in Alaska.

[2:35:54 PM](#)

MR. WUCHERPFENNIG stated that, to his knowledge, PFC Energy does not own any real estate in Alaska. Its clients include international oil companies, national oil companies, governments, and financial institutions.

[2:36:15 PM](#)

REPRESENTATIVE SAMUELS requested the percentage of PFC Energy's government versus oil company clients.

[2:36:31 PM](#)

MR. WUCHERPFENNIG responded that, this year, its largest client is a national oil company.

[2:36:42 PM](#)

REPRESENTATIVE RAMRAS reminded the committee that Dr. Pedro van Meurs only works for government agencies.

[2:36:57 PM](#)

REPRESENTATIVE SAMUELS confirmed that Dr. van Meurs provides consulting classes for individual companies and consults for governments.

[2:37:02 PM](#)

REPRESENTATIVE RAMRAS stated that Dr. van Meurs developed the PPT to optimize the production, development, and exploration of oil and gas, and a healthy investment climate, for the State of Alaska versus the rest of the world.

[2:37:23 PM](#)

MR. WUCHERPHENNIG called the committee's attention to a graph illustrating the distribution of the marginal tax rates of 190 oil and gas fields. He pointed out that, although there are 1,400 data points on the chart, for three areas of tax regimes the marginal tax rate remains about the same. These tax regimes are: the Gulf of Mexico at 4.83 percent, the United Kingdom at 50 percent, and Norway at 78 percent. He further explained that these tax systems are not progressive and that the tax rate does not change as the project becomes more profitable or as prices or volumes increase.

[2:38:47 PM](#)

MS. DAVIS added that the data reviewed to develop the charts and graphs supplied by PFC Energy is supported by extensive research information.

[2:39:45 PM](#)

MR. WUCHERPFENNIG then referred to a bar chart that indicates the median marginal tax rate in year ten of sample projects. Year ten was chosen as a convention rather than to look at the full cycle of government take. He clarified that median means the results of all the projects are sorted to find the project that falls in the exact middle of the ascending or descending order. He determined that the median tax project is in the Gulf of Mexico, that it is taxed on a 43 percent marginal rate. Production sharing agreements (PSAs) reflect a mild progressive nature.

[2:40:30 PM](#)

REPRESENTATIVE SAMUELS pointed out the disadvantage of not seeing the complete information reflecting field size, prospectivity, and other factors.

[2:40:53 PM](#)

MS. DAVIS assured the committee that all the data will be available to the members.

[2:41:03 PM](#)

MR. WUCHERPFENNIG explained that the mild progressive nature of government take ends at the point of approximately \$30 per barrel as the highest government take bracket has been reached. As the median project was found in the Gulf of Mexico, a chart was provided that displayed tax regimes for the Gulf of Mexico, the United Kingdom, and Norway. The chart indicated that Norway collects the highest government take at 78 percent, the United Kingdom collects government take at 50 percent, and the Gulf of Mexico collects government take at 43 percent. Mr. Wucherpennig then pointed out that the median undiscounted government take in economic rent and by fiscal structure reveals that a tax royalty regime, such as the Gulf of Mexico, is regressive in nature. Thus, the more profitable a project, the less government share on a percentage basis, whereas, a production sharing agreement is clearly of a progressive nature.

[2:42:39 PM](#)

REPRESENTATIVE RAMRAS asked whether the undiscounted government take tax is similar to the Economic Limit Factor (ELF) system.

[2:43:00 PM](#)

MR. MARKS confirmed that any system based on gross is regressive, therefore, even PPT can be regressive because of royalties; ELF was regressive due to the severance tax assessed in addition to royalties.

[2:43:18 PM](#)

MR. WUCHERPFENNIG displayed a chart showing median undiscounted government take in economic rent by country. Only the Gulf of Mexico is regressive due to the gross tax and royalty on revenues. In the United Kingdom and Norway the taxation is on a profit, or net, basis that is not regressive.

[2:43:59 PM](#)

REPRESENTATIVE NEUMAN questioned why Norway and the United Kingdom do not use a gross tax.

[2:45:01 PM](#)

MR. WUCHERPFENNIG responded that a gross tax does not account for costs occurred to produce the oil; the desire is to tax the value added, or the profit, of the company.

[2:45:30 PM](#)

REPRESENTATIVE NEUMAN noted the importance of adding in incentives for future investment and development.

[2:45:38 PM](#)

MR. WUCHERPFENNIG further explained that Norway uplifts 30 percent of the capital investment to encourage investment in the Norwegian continental shelf.

[2:46:03 PM](#)

REPRESENTATIVE SAMUELS opined that Norway is not a good comparison with Alaska because of its higher prospectivity.

[2:47:04 PM](#)

MS. DAVIS pointed out that comparisons between countries must contain a range of factors; prospectivity is just one important factor.

[2:48:00 PM](#)

MR. WUCHERPFENNIG pointed out that developers in Norway can recover 95 percent of costs of development on the continental shelf due to uplift.

[2:48:27 PM](#)

REPRESENTATIVE DOOGAN asked for the name of the taxing authority in the Gulf of Mexico.

[2:48:55 PM](#)

MR. WUCHERPFENNIG answered that the total taxes are assessed in the Gulf of Mexico by the federal government. He encouraged the committee to look at the table that indicated the same regressive nature of median discounted government take in economic rent. The PSA progression is diluted because the longer the project lead time results in lower present value of cash flows and in lower government take. In general, the tax

royalty regime remains regressive and PSA is mildly progressive. He concluded by saying that the interpretation of median discounted government take in economic rent by country indicates that the Gulf of Mexico tax regime shows a regression, whereas, the United Kingdom and Norway show a flat line. Thus the absolute values are slightly higher than on an undiscounted basis.

[2:51:30 PM](#)

MICHAEL D. WILLIAMS, Chief Economist, Tax Division, Department of Revenue (DOR), began by introducing Rich Ruggiero and Bob George, economists with Gaffney, Cline & Associates Inc.

[2:51:56 PM](#)

REPRESENTATIVE SAMUELS asked for a description of Gaffney, Cline & Associates Inc.

[2:52:14 PM](#)

}BOB GEORGE, Consultant* Gaffney, Cline & Associates Inc. (Gaffney, Cline)* Houston, Texas* Answered questions during the hearing on HB 2001.{ explained that Gaffney, Cline works for oil companies and governments around the world and it is not unusual for it to consult with governments or to advise a national oil company in situations such as licensing promotions or fiscal system structures.

[2:52:39 PM](#)

REPRESENTATIVE SAMUELS further asked whether a situation could arise whereas Gaffney, Cline may be working for the State of Alaska and also for the oil companies that will be affected by its advice to Alaska.

[2:53:06 PM](#)

MR. GEORGE responded that advising both government and the industry is not unusual; generally there is not a conflict of interest.

[2:53:25 PM](#)

DR. WILLIAMS referred to a statement by the governor that Alaska wants to get its fair share of revenue while maintaining its competitiveness worldwide. He informed the committee that the

purpose of his presentation will be to look at the issue of the rate of government take in Alaska and whether it is comparable to other regions. His first chart was provided by the Alberta Royalty Review Panel and indicated how government take in 17 petroleum regions had increased between 2002 and 2006. He noted that tax increases in tax regimes have become very common recently.

[2:55:16 PM](#)

REPRESENTATIVE DOOGAN asked whether the increase would be larger when calculated over the life of the projects.

[2:56:44 PM](#)

DR. WILLIAMS answered that he would have to research the source of data in order to respond.

[2:57:01 PM](#)

REPRESENTATIVE NEUMAN asked whether the increase in fair share could have been due to the higher cost of oil. Furthermore, additional investments could explain the increases, also.

[2:58:08 PM](#)

DR. WILLIAMS reminded the committee that when looking at marginal take, with the same costs percentage, actual government share would also remain the same. He continued to explain that an increase in the cost of oil would reflect in an increase in the dollar amounts, not percentages.

[2:59:04 PM](#)

MR. GEORGE agreed that the increase in the price of oil is a huge factor in the total increase of government take worldwide. However, the graph shows that other countries are changing the tax systems as a reaction to increased profits by the oil industry.

[2:59:52 PM](#)

DR. WILLIAMS announced that the presentation will provide information on prospectivity, oil production cost, political risk, fiscal stability, speed of capital recovery, and government take in various oil producing regions. He will

discuss background information and details on five regions that are being compared to Alaska. He informed the committee that the largest oil producing countries in the world are: Saudi Arabia, producing 10.4 million barrels per day; Russia, producing 9.8 million barrels per day; U. S., producing 6.9 million barrels per day; Iran, producing 4.3 million barrels per day; China, producing 3.7 million barrels per day; Mexico, producing 3.7 million barrels per day; Canada, producing 3.1 million barrels per day; United Arab Emirates, producing 3 million barrels per day; Venezuela, producing 2.8 million barrels per day; and Norway, producing 2.8 million barrels per day. Oil companies have limited access to many of these countries; those available for new oil production are: U. S., Canada, Norway, and with constraints, Venezuela.

[3:02:36 PM](#)

REPRESENTATIVE SAMUELS commented that countries like Venezuela have never been a good risk due to the political climate. He questioned why oil companies make large cash investments in Venezuela instead of Alaska. He further asked how much oil is produced in Iraq.

[3:04:13 PM](#)

DR. WILLIAMS answered that Iraq produces about 1.8 to 2 million barrels a day. In addition, although Iraq has similar geology to Saudi Arabia, its recent string of wars has meant there has been little exploration and production. Dr. Williams began to review the legal systems of Alaska, Alberta, Norway, the United Kingdom, and the Gulf of Mexico in order to compare Alaska to similar tax and royalty systems. The components of the tax regimes to be compared are: signature bonus, royalty, production tax, tax credits and uplift, property tax, and corporate income tax. In Alaska, there is a signature bonus; there is a royalty of about 12.5 percent; a production tax based on net income; tax credits, however, there is no uplift; there are property taxes, based on assessed value; and corporate income taxes at the state and federal level, with deductions for bonuses, royalty, production tax, property tax, and state corporate income tax.

[3:04:36 PM](#)

DR. WILLIAMS said that Alberta has a complex tax system that is different for tar sands, gas, and conventional oil.

[3:07:47 PM](#)

REPRESENTATIVE SAMUELS asked whether the conventional oil in Alberta is located near the tar sands and how tar sands, gas, and conventional oil are taxed at different rates. He compared this to the similar situation in Alaska with conventional and heavy oil.

[3:08:34 PM](#)

DR. WILLIAMS indicated that the tar sands and conventional oil are in the same province. However, the material is uniform and when leases are put up for bid, government approval is requested. Thus, the company and the government know the scope of the project and agreements are already in place.

[3:09:24 PM](#)

REPRESENTATIVE NEUMAN requested a range, or an average amount, for each cost factor listed.

[3:10:30 PM](#)

DR. WILLIAMS said those figures are forthcoming. For conventional oil in Alberta there is a signature bonus; royalty at 14.78 percent, based on the age of the well; no production tax, no tax credits and uplift; no property tax; and corporate income taxes that are based on 20 percent of profit for federal and 10 percent for provincial, and that both are an additive tax.

[3:12:14 PM](#)

REPRESENTATIVE SAMUELS requested the percentage of revenues from tar sands versus conventional oil in Alberta.

[3:13:18 PM](#)

DR. WILLIAMS expressed his guess that, at one time, conventional oil represented the largest portion of revenue to Alberta. However, there may have been a reversal.

[3:13:27 PM](#)

REPRESENTATIVE SAMUELS asked for the names of the big companies doing business in Alberta.

[3:13:34 PM](#)

DR. WILLIAMS listed Cinco Oil, ExxonMobil Corporation, PetroCanada and EnCana oil companies.

[3:13:51 PM](#)

REPRESENTATIVE HOLMES asked whether Alberta is revising its conventional oil tax regime.

[3:14:06 PM](#)

DR. WILLIAMS said yes, and noted that Alberta is simplifying its system.

[3:14:26 PM](#)

MR. GEORGE added that most changes affect the oil sands tax.

[3:14:36 PM](#)

REPRESENTATIVE NEUMAN referred to the increase in production in oil sands in Canada and inquired whether this is due to a change in the tax structure.

[3:15:04 PM](#)

DR. WILLIAMS opined that he is not sure. However, the ability to recover costs prior to the payment of royalty may be significant.

[3:15:17 PM](#)

MR. GEORGE informed the committee that growth is an ongoing process in the oil sands area. In addition, technical improvements and the increase in oil price, despite the increase in production costs and labor shortages, still result in strengthened economics.

[3:16:06 PM](#)

DR. WILLIAMS added that a 2005 study published by the International Energy Agency (IEA) revealed that the tar sand production in Alberta was benefiting from new production technology along with increased prices.

[3:17:13 PM](#)

REPRESENTATIVE NEUMAN asked for the correlation between the new tax structure and additional profits in Alberta.

[3:17:38 PM](#)

DR. WILLIAMS expressed his belief that the improvement in technology is the major factor. He pointed out that Alberta has massive reserves and uniform characteristics that will allow for large scale production. Dr. Williams then described Norway's tax regime. Norway has no signature bonus; no royalty; production tax is based on 50 percent of profit and is additive; has tax credits and uplift; no property tax; and a corporate income tax that is based on 28 percent of profit and is additive.

[3:19:08 PM](#)

REPRESENTATIVE SAMUELS questioned how companies qualify for a signature bonus.

[3:19:36 PM](#)

MR. GEORGE answered that companies submit speculative seismic surveys pursuant to licensing rounds, and will individually apply to the Norwegian Petroleum Directorate Ministry and be selected without payment. Payments will be collected through taxes at a later date.

[3:20:00 PM](#)

DR. WILLIAMS began to describe the United Kingdom tax regime: no signature bonus; no royalty; production tax on fields developed before March 1993 pay 50 percent and there is no tax on fields with development approval after March 1993 and there are further adjustments; no tax credits and uplift; no property tax; corporate income tax is based on 50 percent of profit.

[3:21:26 PM](#)

REPRESENTATIVE NEUMAN asked whether the United Kingdom tax is a gross tax.

[3:21:57 PM](#)

DR. WILLIAMS said no. A gross tax is computed by volume times price, and then times 50 percent. In the United Kingdom, the

tax is 50 percent of profit which is volume times price, with costs subtracted.

[3:22:16 PM](#)

}RICH RUGGIERO, Consultant* Gaffney, Cline & Associates Inc.* Houston, Texas* Answered questions during the hearing on HB 2001.{ recalled that last year there was discussion regarding the March, 1993, tax cut that basically eliminated the production tax and royalty for new development. For the period from 1993 to 2002, the United Kingdom was only collecting corporate income taxes from the oil industry. He continued to say that the supposition was that this was responsible for new production activity. However, he opined that other factors such as; the availability of onshore facilities, the elimination of the restriction on natural gas being burned for power generation, and a pipeline to Belgium for the export of excess gas, contributed to the increase in development.

[3:25:12 PM](#)

DR. WILLIAMS outlined the tax regime for the Gulf of Mexico (GOM): signature bonus; royalty, with some relief for deep water.

[3:26:20 PM](#)

REPRESENTATIVE SAMUELS asked whether Congressional action regarding the leases and tax systems in GOM is anticipated.

[3:26:53 PM](#)

DR. WILLIAMS answered yes, and expressed his belief that there is still a lot of legislative activity concerning the old contracts in the Gulf of Mexico. He continued to describe the tax regime for GOM as follows: there is no production tax; has tax credits and uplift; no property tax; and has federal corporate income tax based on 35 percent of profits. He then turned to the factor of prospectivity and pointed that the data being presented is based on all exploration and discoveries since 1990, and on reserves that have been added since 1990. The data presented is for eighteen countries during a ten year period and includes exploration wells, post 1990; discoveries, post 1990; wells per discovery; success rate; reserves; and reserves per well. Dr. Williams pointed out that Angola ranks highest for prospectivity with a ratio of 2.3 wells per discovery, a 44 percent success rate, and 62 million barrels of

reserves booked per wells drilled. Argentina and Australia rank lowest with one million barrels of oil for each well drilled. The order of rank by reserves and number of wells drilled places Alaska, with 6.9 wells per discovery, a 15 percent success rate, and 10 million barrels per well drilled, eleventh out of eighteen countries studied.

[3:30:25 PM](#)

REPRESENTATIVE SAMUELS observed that this data is based on new exploration wells only.

[3:30:44 PM](#)

DR. WILLIAMS agreed. He then pointed out that prospectivity can also be compared by conventional oil pool size and introduced data from 1994 to 2003. This data was compiled by the Albert Royalty Review Panel and is included for the committee's consideration. Dr. Williams relayed that for an oil company, the larger the pool size, the lower the capital cost of the oil produced. He stressed that the countries with discoveries of over 200 million barrels, such as Kazakhstan, Nigeria, Angola, Vietnam, Cote d'Ivoire, and Thailand, lead the world; however, Alaska with a conventional oil pool size of about 100 million barrels, is again in the middle of the global average and on the high side of its peer group. He turned to the comparison of upstream per barrel production cost, including capital and operating expense but not transportation costs, that was compiled from data collected in 2006 and 2007. The bar graph illustrates that Alaska is seventh highest out of eleven samples. Actual dollar figures are not shown. He explained that Alaska cost estimates are from January to June, 2007, and that the estimates for Alberta, which are very close to Alaska's, are only for the development of conventional oil. The next highest comparison is Norway, and its estimates are for development from offshore oil platforms and are a combination of operating and capital expenses from 2007.

[3:33:27 PM](#)

REPRESENTATIVE NEUMAN asked Dr. Williams to explain upstream costs.

[3:33:48 PM](#)

DR. WILLIAMS explained that upstream costs are all of the costs necessary to produce the oil including the cost to get the oil

out of the ground and transportation to a processing plant. The cost of the oil that is flowing down the Trans-Alaska Pipeline System (TAPS) is the midstream cost. Finally, downstream cost is the cost of marketing the refined product.

[3:34:37 PM](#)

REPRESENTATIVE HOLMES observed that the chart did not reflect the actual estimated cost of production per barrel for the eleven countries given as examples to compare.

[3:35:04 PM](#)

DR. WILLIAMS explained that the costs are not strictly comparable and this information is provided to illustrate the range of costs. For example, Libya has a very low cost environment with relatively large fields. He opined that Norway, with its offshore development in deep water, can expect much higher costs.

[3:35:50 PM](#)

REPRESENTATIVE SAMUELS pointed out that Australia is shown in Alaska's peer group in estimated upstream production cost, but its prospectivity is judged at the lowest.

[3:36:51 PM](#)

MR. RUGGIERO explained that Australia has a lot of coal production activity onshore and near the population centers. In addition, improvements in technology have increased activity offshore.

[3:37:54 PM](#)

DR. WILLIAMS, in response to a question, further explained that the prospectivity data identifies Vietnam, Alaska, Norway, GOM, UK, Argentina, and Australia as tax and royalty regimes. He also explained that only oil reserves are booked and gas reserves are not included.

[3:38:18 PM](#)

REPRESENTATIVE SAMUELS confirmed that exploration wells could be for gas.

[3:38:27 PM](#)

REPRESENTATIVE KERTTULA confirmed that upstream per barrel production costs were shown for January through June, 2007, for Alaska, and requested the timeframe of the costs shown for the other examples.

[3:38:57 PM](#)

DR. WILLIAMS answered that the costs for Alberta occurred in 2007; for Norway operating costs are for 2006 and capital costs are for 2007; for the United Kingdom, operating costs are for 2007, capital costs were reported in April, 2007; for Gulf of Mexico, deep water operating costs were reported for 2006; capital costs were [undated].

[3:40:16 PM](#)

REPRESENTATIVE KERTTULA asked whether all fields were included.

[3:40:39 PM](#)

DR. WILLIAMS relayed that the production cost information was compiled from data on offshore platform wells in GOM, the United Kingdom, and Norway; in Alberta, the information is on conventional oil; in Alaska, the information is on the North Slope.

[3:40:57 PM](#)

REPRESENTATIVE SAMUELS opined that Alaska is roughly comparable to Norway, although Norway's oil is offshore and they operate all year around.

[3:41:19 PM](#)

DR. WILLIAMS agreed. He then turned to a breakdown of oil reserves designated by political risk. In 2006, Canada, U. S., U. K., Norway, and Australia were designated with negligible risk. Countries with moderate risk were: Qatar, United Arab Emirates, Malaysia, Egypt, and Brazil. Countries with significant risk were: Russia, Saudi Arabia, Iran, Kuwait, Venezuela, Nigeria, Algeria, Libya, Indonesia, Kazakhstan, Mexico, and China. Iraq was considered of high risk. In 2007, Russia and Venezuela were added to the high risk category. Dr. Williams called the committee's attention to a graph that illustrated fiscal stability and stated that the data was supplied by PFC Energy. The graph illustrates negative and

positive changes in fiscal systems since 1999, and is from the prospective of the oil industry. Norway was cited as having the highest score for stability because, although there had been a change, the change reduced tax liability for the oil companies. Venezuela was cited as having the lowest cumulative stability score, as it has raised taxes and nationalized oil company property. Alaska was listed in the middle, with a score slightly below neutral. He opined that, although there have been changes in Alaska's tax system, tax credits and taxes based on income have benefits to the oil companies; therefore, Alaska remains grouped closely with its peers in the category of fiscal risk.

[3:46:52 PM](#)

REPRESENTATIVE NEUMANN asked whether DOR would provide a similar graph that illustrates oil and gas industry investments in the same countries over a ten year period of time.

[3:47:25 PM](#)

DR. WILLIAMS opined that successful investments change from year to year.

[3:47:39 PM](#)

REPRESENTATIVE NEUMANN suggested that a country's investments should be comparable to higher levels of fiscal stability.

[3:47:56 PM](#)

DR. WILLIAMS encouraged committee members to think about the previous information in the same way oil companies look at future investments; they consider geology, stability, and portfolio diversification.

[3:48:37 PM](#)

MR. RUGGIERO stressed that Norway and Indonesia score high because they have had no recent changes, even though their tax rates are high. He encouraged the committee to look at this data as a snapshot instead of the whole picture.

[3:49:46 PM](#)

REPRESENTATIVE NEUMAN agreed that much of the information presented represents a small snapshot in time.

[3:50:19 PM](#)

MR. RUGGIERO noted that oil company managers look at possible projects each year and make choices on where to invest.

[3:50:33 PM](#)

REPRESENTATIVE DOOGAN asked whether lowering the tax rate would result in a negative rating on the scale illustrated.

[3:51:04 PM](#)

DR. WILLIAMS answered no. Decreasing the tax rate is positive from the perspective of the oil companies.

[3:51:23 PM](#)

REPRESENTATIVE DOOGAN concluded that the scale is not measuring stability, but tax increases.

DR. WILLIAMS said that this scale measures changes.

[3:51:38 PM](#)

REPRESENTATIVE DOOGAN stated that measuring changes would entail measuring all changes.

MR. GEORGE clarified that the scale is just one of many measurements.

[3:52:47 PM](#)

REPRESENTATIVE DOOGAN further asked what is meant by fiscal stability; does stability mean that there are no changes. He opined that if the scale only measures changes that are not beneficial to the oil and gas industry, the scale is not about measuring stability but is about citing countries that raised government take.

[3:53:25 PM](#)

DR. WILLIAMS pointed out that Nigeria and Ireland are shown as neutral; there were no changes, thus, the scale does indicate positive and negative changes.

REPRESENTATIVE DOOGAN remarked:

I'm sorry, but that's not the answer I got to my initial question. What I asked was, if I, if I was one of those countries, and I lowered, one of those tax regimes, there're not all countries I guess, and I lowered my taxes, would that count against me on this stability scale.

[3:53:42 PM](#)

DR. WILLIAMS answered no, that would be a positive change.

REPRESENTATIVE DOOGAN agreed and stated that, therefore, the scale does not really measure stability, but whether or not countries raised their taxes.

DR. WILLIAMS expressed his belief that the scale measures both.

MS. DAVIS opined that a better title for this scale would be fiscal risk; the scale shows change and the positive or negative direction of that change.

CHAIR OLSON expressed his assumption that the oil companies viewed PPT in a negative fashion.

[3:54:09 PM](#)

DR. WILLIAMS said yes, with some positive attributes.

[3:54:15 PM](#)

MR. RUGGIERO pointed out that the committee is faced with an objective analysis of a subjective process.

[3:54:53 PM](#)

REPRESENTATIVE DOOGAN expressed his objection to the improper use of the word "stability".

[3:55:07 PM](#)

REPRESENTATIVE KERTTULA asked whether the fact that there will be a review of PPT in 2011 affects the industry's regard for Alaska's fiscal stability. She stated the value of small changes now, rather than a total re-write in the future.

[3:56:27 PM](#)

DR. WILLIAMS suggested that the oil companies should be asked that question directly.

MR. RUGGIERO added that oil companies are now requesting agreements on fiscal stability from all tax regimes.

[3:57:12 PM](#)

REPRESENTATIVE NEUMAN recalled testimony from oil industry specialists that favored a set review date in the future for PPT.

[3:57:30 PM](#)

REPRESENTATIVE KERTTULA expressed her belief that the United Kingdom is viewed as a stable regime that has made changes in response to the market. She asked why it was charged with negative change.

[3:57:53 PM](#)

MR. GEORGE reiterated that the United Kingdom made changes that increased costs to oil companies.

[3:58:17 PM](#)

REPRESENTATIVE KERTTULA asked for confirmation that flexibility and response to the market are not viewed as negative.

MR. GEORGE stressed that the total number of changes in both directions is high; however, the amount of change is also a factor.

[3:59:08 PM](#)

DR. WILLIAMS presented the next slide that depicted the capital depreciation time frames for five tax regimes. He stated that data was collected from tax codes and indicated that Alaska has one year depreciation for state taxation and six years for federal taxation; the Gulf of Mexico and Norway have six years for taxation; the United Kingdom has one year for taxation; and Alberta has ten or more years for taxation. Dr. Williams opined that Alaska is a little better than its peers regarding the speed of recovery of capital, and analysts must look at several sources to get an accurate picture. He began the presentation on marginal government take by informing the committee that

sources for this information include: the Alberta Panel Review 2007, Wood Mackenzie 2007, PFC Energy 2007, and the U.S. General Accounting Office 2007. He then pointed out that the estimated marginal government take for Alaska is based on data from the North Slope and is shown separately under PPT and ACES. The data assumes each project is in its tenth year of operation. The data for the United Kingdom is divided into two sections to allow for the different level of contributions from legacy or from new fields.

[4:02:28 PM](#)

DR. WILLIAMS pointed out that Alberta and GOM are at about 44 percent, which is lower than Alaska, and Norway is significantly higher at about 78 percent. The total estimate for the United Kingdom is about 75 percent. Again, Alaska is in the middle at about 61 percent under PPT, and 65 percent under ACES. Cradle to grave government take estimates are similar, although the data for Alaska is from six specific projects whose details will be discussed during the hearing on October 21, 2007. Dr. Williams began discussion on where capital dollars are being spent and said that public records indicate, for example, that BP spent \$6,592 million dollars in the U. S. during 2006, and spent \$6,526 million in international development during 2006.

[4:05:32 PM](#)

MR. RUGGIERO clarified that this data is limited to upstream spending.

[4:05:43 PM](#)

DR. WILLIAMS pointed out that ConocoPhillips Alaska, Inc. breaks exploration costs in Alaska into a subset of its total costs.

[4:06:20 PM](#)

MR. RUGGIERO added that in spite of the favorable tax rates and prospectivity of the lower 48 states, oil companies are spending a high percentage of capital dollars outside the U. S.

[4:06:43 PM](#)

REPRESENTATIVE SAMUELS asked whether transportation costs are included in the upstream per barrel production cost estimates.

[4:07:07 PM](#)

DR. WILLIAMS said no.

[4:07:13 PM](#)

REPRESENTATIVE SAMUELS suggested that Alaska's wellhead value should be compared to its peer group.

[4:07:23 PM](#)

REPRESENTATIVE NEUMAN observed that in 2006, ConocoPhillips Alaska, Inc. spent less than half what was spent for capital costs in 2002. He asked whether this decrease is a trend.

[4:08:25 PM](#)

MR. RUGGIERO clarified that the numbers shown are a percentage of overall portfolio spending. Absolute numbers show an increase in total spending. It is difficult to say how the percentages have changed for the other major oil companies because they do not report their capital spending in Alaska separately.

[4:09:15 PM](#)

REPRESENTATIVE NEUMAN also observed that inflation may have an effect on the percentages shown.

[4:09:44 PM](#)

DR. WILLIAMS said that he did not know.

MR. RUGGIERO responded that this data will reveal whether or not oil companies invest where the tax rates are lowest. He pointed out that oil companies do not always invest where the tax rate is lowest.

[4:10:17 PM](#)

REPRESENTATIVE SAMUELS asked whether the data on capital investments includes investments that are made in the pipeline company by the owners. For example, BP owns 50 percent of the pipeline, thus, a capital investment for them would not be included in this data, but would be rolled into the tariff.

[4:11:12 PM](#)

DR. WILLIAMS agreed.

MR. RUGGIERO said that some oil companies will include pipeline costs as part of their upstream sector; others include them as a midstream sector; and for others spending on assets is difficult to determine.

[4:11:41 PM](#)

REPRESENTATIVE SAMUELS opined that BP Alaska, Inc. would include shipping as an operating expense even though BP, as an owner, made capital improvements to the pipeline.

[4:12:19 PM](#)

DR. WILLIAMS informed the committee that there is not a good history of capital spending in Alaska since the first filings were received in March, 2007. He then called the committee's attention to a listing that indicates where four oil companies are making investments. BP is making investments in: Algeria, Angola, Australia, Azerbaijan, China, Egypt, Indonesia, Russia, and Trinidad and Tobago. Chevron is making investments in: Angola, Australia, Brazil, Canada, Indonesia, Kazakhstan, Nigeria, Norway, the Partitioned Neutral Zone, Thailand, the United Kingdom, and Trinidad and Venezuela. ConocoPhillips is making investments in: Australia, Canada, China, Indonesia, Kazakhstan, Libya, Malaysia, Peru, Qatar, Russia, the United Kingdom, Vietnam, and Venezuela. ExxonMobil Corporation is making investments in: Australia, Canada, Indonesia, Ireland, Venezuela, Norway, Philippines, Qatar, and the United Arab Emirates.

[4:13:38 PM](#)

MR. RUGGIERO added that the data compiled is listed in alphabetical order, and the sources of the data are industry annual reports and public documents for investors and shareholders.

REPRESENTATIVE SAMUELS confirmed that this data is of investments in oil and gas.

[4:14:12 PM](#)

REPRESENTATIVE DOOGAN asked for the location of the Partitioned Neutral Zone.

[4:14:35 PM](#)

DR. WILLIAMS answered that it is between Kuwait and Saudi Arabia.

[4:14:57 PM](#)

MR. RUGGIERO, in answer to a question, stated that this data is supplied to highlight investments outside of the U.S. and Alaska.

[4:15:18 PM](#)

REPRESENTATIVE SAMUELS noted that most of the companies hold investments in the same countries and asked whether a trend, or guidelines for oil industry investments, have been identified.

[4:15:53 PM](#)

DR. WILLIAMS pointed out that investors will diversify their portfolios.

[4:16:34 PM](#)

MR. RUGGIERO noted that, in contrast with 13 years ago, most of the South American countries are missing from the list of recent industry investments. Presently, there is a concentration of interest in the former Soviet Union, North Africa, and West Africa. He concluded that interest by the industry is constantly changing over the years depending on changing technology and political climate.

[4:17:46 PM](#)

DR. WILLIAMS informed the committee that the presentation had covered prospectivity, fiscal stability, government take, and political risk, and his conclusion is that Alaska is very competitive within its peer group and worldwide. The perspective of DOR is that it seems possible to increase government take and remain competitive.

[4:18:51 PM](#)

REPRESENTATIVE RAMRAS recalled a bill he introduced two years ago that proposed a ban on state investment in companies and countries that support terrorism. The resulting fiscal cost was

\$200 million dollars. He questioned how to quantify the risk associated with DOR's second conclusion that it is possible to increase government take and remain competitive. Representative Ramras noted that the risk is accrued to the legislature on behalf of the people of Alaska. He asked whether it is worthwhile to pay this kind of risk premium.

[4:22:55 PM](#)

DR. WILLIAMS replied that the risk can be modeled, but the challenge is to make the correct assumptions for the model.

[4:23:18 PM](#)

MS. DAVIS stated that Alaska established a gross tax system under ELF and it was in effect for 18 years. During that time there was intense industry pressure not to make any adjustments. This legislature had the courage to make a big change and update Alaska's tax system by the passage of PPT. She suggested that small changes, similar to adjustments made by the United Kingdom, may be the solution to eliminate the fear that, in 2011, there will again be a major change. Industry and legislators could see these smaller changes as correcting course, or fine tuning. She expressed her belief that Alaska can continue to accept the idea that no change is ideal, or to review PPT in the short term and look at a change. The legislature can make this choice; the administration takes the position that the tax law needs to be studied in light of new information, and then be ratified or adjusted.

[4:28:48 PM](#)

REPRESENTATIVE RAMRAS further asked what DOR can do to make assumptions that tax policy follows behavior and model this against raising the tax rate. He encouraged the DOR to define the risk premium in order to study it. Others have said that wanting more money is a given; however, the hazards must be considered. As the \$200 million fiscal note stopped his bill last session, Representative Ramras expressed his hope that the risk of raising taxes will be moved from philosophical banter to hard numbers. He suggested that the fiscal note on risk premiums for ACES may total two and one-half billion dollars over five years.

[4:33:20 PM](#)

MS. DAVIS explained that DOR quantified its analysis of the oil industry's net present value and has the ability to extrapolate each company's outlook. However, she said, DOR cannot speak for the companies and must continue to search for expert advice.

[4:34:05 PM](#)

REPRESENTATIVE RAMRAS referred to recent meetings called by the administration to articulate why the gross tax methodology did not work and noted that the administration is now strongly advocating for ACES. He expressed his hope that the same effort will be made to quantify the risk of increasing taxes and to show committee members how much risk the legislature is taking for all Alaskans. He challenged the administration to provide a range of numbers at the hearing on October 21, 2007, that will convince legislators that the risk premium for all Alaskans is not great enough to show caution when increasing costs to the oil industry.

[4:37:05 PM](#)

REPRESENTATIVE SAMUELS reiterated that the administration feels that a 25 percent tax rate will not adversely affect investment. He questioned how high the rate could go before the administration feels investment would be affected, and how the 25 percent rate was determined.

[4:38:37 PM](#)

MS. DAVIS acknowledged that there was no way to determine a single safe number. The DOR looked at the ranges of tax regimes, bracketed by Alaska's peers, with Norway at the top and GOM on the bottom, and modeled the impacts of differing tax rates against new and mature fields. She stressed that this is a reasoned and conservative recommendation that DOR is making to legislators. The 25 percent tax rate is within a comfort zone and is a government take number that has been quantified and is in step with global norms. She welcomed the member's questions and assured the committee that quantitative elements to support the 25 percent tax rate recommendation will be provided at the hearing on October 21, 2007.

[4:41:50 PM](#)

REPRESENTATIVE SAMUELS expressed his belief that citizens will have different opinions about the appropriate tax rate that will

range from 15 percent to 40 percent and no one will be satisfied.

[4:43:09 PM](#)

MS. DAVIS agreed and stated that the legislature will have to find the middle ground and DOR will provide guidance to make the decision.

[4:43:42 PM](#)

REPRESENTATIVE DOOGAN asked whether DOR knows how much individual oil companies invest in exploration and development in Alaska.

[4:44:11 PM](#)

MS. DAVIS responded that DOR collects applications for investment credits; however, some costs of exploration fall into the capital credits category. Audits and new forms are needed to determine the details of capital costs listings such as those listed on unit returns.

[4:44:58 PM](#)

REPRESENTATIVE DOOGAN questioned whether this information is available historically.

[4:45:22 PM](#)

MS. DAVIS answered that historical data is available from DNR through royalty relief applications and plans for development. In addition, this information is compiled from many sources and the majority of it is confidential, thus compilations are made. DOR then looks at the historical data and, with the addition of global data, forecasts future costs.

[4:46:13 PM](#)

REPRESENTATIVE DOOGAN restated his question regarding the availability of historical data on annual oil company investments in exploration and development in Alaska.

[4:46:38 PM](#)

MS. DAVIS affirmed that DOR has some data.

[4:46:54 PM](#)

REPRESENTATIVE DOOGAN stressed that Alaskans will only know that the tax rate is too high if the investment in exploration and development of new sources of oil declines. Committee members need to know which data will tell whether the oil industry investment in exploration and development had changed as a percentage of its overall investment in exploration and development. If more investment is spurred just because of higher prices the possible influence of a changed tax policy will be obscured. He said that he is searching for this information.

[4:48:51 PM](#)

MS. DAVIS affirmed that, for the hypothetical fields that were modeled, good cost data was available from DNR regarding costs and production profiles. Conclusions are being benchmarked by changes in taxes, which is a step beyond what was done before.

[4:50:14 PM](#)

REPRESENTATIVE DOOGAN clarified his previous statement and remarked:

What I said with respect to those two numbers is all other things being equal; we'd all take the two billion dollars, right. The problem here is that all other things aren't equal. When you couple that kind of uncertainty with this perception that you talked about earlier, that we are doing this for the next 15 years ... I don't believe that we should sit here and think that we're going to be able to write a piece of legislation, or even leave in place, a piece of legislation that's so perfect that we're not going to have to look at it again for 15 years.

[4:51:18 PM](#)

CHAIR OLSON opined that there are two issues being discussed. Firstly, there is the critical audit issue that must be addressed. Without the additional staffing of auditors, to complete the audits and collect information, there is insufficient information to make an informed decision of this magnitude.

[4:52:37 PM](#)

REPRESENTATIVE NEUMAN spoke of his priority to know where best to direct the dollars that are spent in Alaska. He recalled that ConocoPhillips Alaska, Inc. increased its total investment dollar amount, but Alaska's percentage is less. He expressed his hope that legislation will be passed to enable DOR to determine where the dollars are going and, thus, then will know how much is being spent in Alaska. Representative Neuman said that the information is needed in order to answer the public opinion messages that he has received.

[4:56:03 PM](#)

MS. DAVIS added that legislature and administration must also consider the timeline of declining revenues and the forecast of oil prices falling to \$50 pr barrel by FY 11.

[HB 2001 was held in committee]

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at [4:58:02 PM](#).